

(C) Administration. Each nursing facility's administration per diem shall be the lower of:

1. Allowable cost per patient day for administration as determined by the Division from the 1992 cost report, trended by the HCFA Market Basket Index for 1993 of 3.9%, 1994 of 3.4% and nine months of 1995 of 3.3%, for a total of 10.6% and adjusted for minimum utilization, if applicable, as described in subsection (7)(O); or
2. The per diem ceiling of 110% of the administration median determined by the Division from the databank.

(D) Capital. Each nursing facility's capital per diem shall be determined using the Fair Rental Value System as follows:

1. Rental Value.

A. Determine the total asset value.

(I) Determine facility size from the 1992 desk audited and/or field audited cost report;

(II) Determine the number of increased licensed beds after the end of the facility's 1992 desk audited and/or field audited cost report but prior to July 1, 1994;

(III) Determine the bed equivalency for renovations/major improvements prior to July 1, 1994, by taking the cost of the renovations/major improvements divided by the asset value per bed for the year of the renovation/major improvement rounded to the nearest whole bed. The cost must be at least the asset value per bed for the year of the renovation/major improvement. For example, a renovations/major improvements cost of \$200,000 is equal to 6 beds. ($\$200,000 / \$32,330$ equals 6.19 beds rounded to 6 beds); and

(IV) Determine the number of decreased licensed beds after the end of the facility's 1992 cost report but prior to July 1, 1994.

(V) Sum of (I), (II), (III) less (IV) times the asset value is the Total Asset Value.

B. Determine the reduction for age by multiplying the age of the beds by one percent (1%) up to forty percent (40%). For multiple licensing dates, the result of the weighted average age calculation will be limited to forty percent (40%).

(I) The age of the beds for multiple licensing dates is calculated on a weighted average method rounded to the nearest whole year. For example, a facility with original licensure in 1977 of 60 beds and an additional licensure of 60 beds in 1982 and 10 beds in 1993, the reduction is calculated as follows:

Licensure Year	Age	Beds	Age X Beds
1977	17	60	1020
1982	12	60	720
1993	1	<u>10</u>	<u>10</u>
Total		130	1750

Weighted Average Age - $1750/130 \text{ beds} = 13.5$ years rounded to 14 years. This results in a reduction for age of the beds of 14%.

(II) The age of the beds for replacement beds is calculated on a weighted average method rounded to the nearest whole year with the oldest beds always being replaced first. For example, a facility with 120 beds licensed in 1978 with replacement of 60 beds in 1988, the reduction is calculated as follows:

*Substitute per letter dated 10/27/95 *

ATT. 4-19D
Page LTC 41

Licensure Year	Age	Beds	Age X Beds
1978	16	60	960
1988	6	<u>60</u>	<u>360</u>
Total		120	1320

Weighted Average Age - $1320/120 = 11$ years. This results in a reduction for age of the beds of 11%.

(III) The age of the beds for reductions in licensed beds is calculated on a weighted average method rounded to the nearest whole year with the oldest beds always being delicensed first. For example, a facility with original licensure in 1977 of 60 beds, additional licensure of 60 beds in 1982 and 10 beds in 1993 and a reduction of 10 beds in 1985, the reduction percentage is calculated as follows:

Licensure Year	Age	Beds	Age X Beds
1977	17	60	
1020			
1982	12	60	
720			
1993	1	10	10
1985*	17	<u>(10)</u>	<u>(170)</u>
Total		120	1580

* reduction of 1977 beds

Weighted Average Age - $1580/120 \text{ beds} = 13.2$ years rounded to 13 years. This results in a reduction for age of the beds of 13%.

*Substitute per letter dated 10/27/95 *

ATT. 4-19D
Page LTC 42

(IV) The age of the beds equivalents for renovations/major improvements is calculated on a weighted average method rounded to the nearest whole year. For example, a 120 bed facility licensed in 1978 undertakes two renovations: \$200,000 in 1983 and \$100,000 in 1993. The asset value per bed is \$32,330. The bed equivalency is 6 beds for 1983 and 3 beds for 1993, the reduction percentage is calculated as follows:

Licensure/ Construction Year	Age	Beds	Age X Beds
1978	16	120	1920
1983	11	6	66
1993	1	<u>3</u>	<u>3</u>
Total		129	1989

Weighted Average Method - $1989/129 = 15.42$ years rounded to 15 years. This results in a reduction for age of beds of 15%.

C. The facility asset value is subparagraph (11)(D)1.A. less subparagraph (11)(D)1.B.

D. Multiply the facility asset value by two and one-half percent (2.5%) to determine the rental value. The two and one-half (2.5%) is based on a forty (40) year life.

E. The following is an illustration of how subparagraphs (11)(D)1.A., (11)(D)1.B. and (11)(D)1.C., (11)(D)1.D. determines the rental value:

(I) Total Facility Size - 174 beds
Weighted Average Age of the Beds - 23 years
Capital Asset Debt - \$2,371,094
Asset Value - \$32,330

*Substitute per letter dated 10/27/95 *

ATT. 4-19D
Page LTC 43

(II) The Total Asset Value is the product of the Total Facility Size times the Asset Value;

Total Facility Size	174
Asset Value	X \$32,330
Total Asset Value	\$5,625,420

(III) Facility Asset Value is Total Asset Value less the Reduction for Age of the Beds; and

Reduction for Age (23%)	\$1,293,847
Facility Asset Value	\$4,331,573

(IV) Rental Value is the Facility Asset Value multiplied by 2.5%.

	X 2.5%
Rental Value	\$ 108,289

2. Rate of Return.

A. Reduce the Facility Asset Value by the Capital Asset Debt, but not less than zero, times the percentage of return. The percentage of return is the yield for the thirty (30) year Treasury Bond as reported by the Federal Reserve Board and published in the Wall Street Journal for the week ending September 2, 1994, plus two percentage (2%) points. The rate is 7.48% for the week ending September 2, 1994, plus 2% for a total of 9.48%.

B. The debt associated with increases in licensed beds or renovations/major improvements after the end of the facility's 1992 desk audited and/or field audited cost report and prior to July 1, 1994, will be added to the capital asset debt from the 1992 desk audited and/or field audited cost report. The facility shall provide adequate documentation to support the additional debt as required in paragraph (7)(E)2. If adequate documentation is not provided to support the additional asset debt, it will be assumed to equal the facility asset value.

*Substitute per letter dated 10/27/95 *

ATT. 4-19D
Page LTC 44

C. The following is an illustration of how subparagraph (11)(D)2.A. is calculated:

Facility Asset Value	\$4,331,573
Capital Asset Debt	<u>\$2,371,094</u>
	\$1,960,479
Percentage of Return	<u>X 9.48%</u>
Rate of Return	\$ 185,853

3. Computed Interest and Pass Through Expenses.

A. Add property insurance (line 109) and property taxes (lines 111 and 112) trended by the HCFA Market Basket Index for 1993 of 3.9%, 1994 of 3.4% and nine months of 1995 of 3.3%, for a total of 10.6%. Also add interest subject to limits identified in subsection (7)(F). These lines are found in the cost report, version MSIR-1 (7-93).

B. The following is an illustration of how subparagraphs (11)(D)3.A. is calculated:

Computed Interest	\$ 207,840
Insurance	\$ 7,594
Property Taxes	<u>\$ 40,548</u>
Pass Through Expenses	\$ 48,142

4. Capital Component Per Diem Calculation.

A. A per diem is calculated by dividing the sum of rental value, rate of return and computed interest by the number of beds determined in subparagraph (11)(D)1.A. times 365 adjusted by the greater of the minimum utilization as determined in subsection (7)(O) or the facility's occupancy from the 1992 desk audited and/or field audited cost report. The following is an illustration of how subparagraph (11)(D)4.A. is calculated:

*Substitute per letter dated 6/27/95 *

ATT. 4-19D
Page LTC 45

Rental Value	\$ 108,289
Rate of Return	\$ 185,853
Computed Interest	\$ 207,840
Total	\$ 501,982
Divided by Annualized Patient Days	56,077
Capital Per Diem	\$ 8.95

B. A per diem is calculated by dividing the pass through expenses by the greater of the minimum utilization as determined in subsection (7)(O) or the facility's patient days from the 1992 desk audited and/or field audited cost report. The following is an illustration of how subparagraph (11)(D)4.B. is calculated:

Pass Through Expenses	\$ 48,142
Patient Days	55,146
Pass Through Per Diem	\$.87

C. The capital component per diem is the sum of subparagraph (11)(D)4.A. and (11)(D)4.B.

Capital Per Diem	\$ 8.95
Pass Through Per Diem	\$.87
Total Capital Component Per Diem	\$ 9.82

(E) Working Capital Allowance. Each nursing facility's working capital per diem shall be equal to one and one-tenth (1.1) months of each facility's per diem for patient care, ancillary and administration times the Chase Manhattan prime rate on September 1, 1994, plus two percentage (2%) points. The following is an illustration of how subsection (11)(E) is calculated:

Patient Care	\$ 30.00
Ancillary	\$ 7.00
Administration	\$ 20.00
Total Per Diem	\$ 57.00
divided by 12 months	12
	\$ 4.75
Times 1.1 months	1.1
	\$ 5.23
Times Prime + 2% (Chase Manhattan plus 2%)	10%
Working Capital Allowance per day	\$.52

*Substitute per letter dated 10/27/95 *

ATT. 4-19D
Page LTC 46

(F) The following is an illustration of how subsections (11)(A), (11)(B), (11)(C), (11)(D) and (11)(E) determine the per diem rate:

	<u>Allowable</u>	<u>Cost Ceiling</u>	<u>Per Diem</u>
Patient Care	\$38.00	\$40.00	\$38.00
Ancillary	\$ 8.00	\$ 6.00	\$ 6.00
Administration	\$12.00	\$11.00	\$11.00
Capital (FRV)			\$ 9.82
Working Capital Allowance			<u>\$.52</u>
Total Per Diem			\$65.34

(12) Reimbursement Rate Determination. A facility's reimbursement rate shall be determined by the Division as described in sections (11), (12), (13) and (14), subject to limitations prescribed elsewhere in this plan. Any facility with an interim rate on December 31, 1994, shall be granted an interim rate effective for services on and after January 1, 1995, as prescribed in subsection (4)(EE) if applicable. A prospective rate determined from this plan shall be retroactively effective for services beginning on the first day of the facility's second twelve (12) month fiscal year but not earlier than January 1, 1995, and shall replace the interim on and after January 1, 1995.

(A) A facility with a valid Medicaid participation agreement in effect on December 31, 1994, and with a 1992 cost report on file with the Division as of December 31, 1993, with a rate setting period ending in calendar year 1992 or prior shall be granted a prospective rate effective for service dates on and after January 1, 1995. For services before January 1, 1995, a prospective rate shall be determined on the basis of the allowable cost per patient day as determined by the Division from the desk audited and/or field audited facility fiscal year cost report under plans applicable on July 1, 1990. The prospective rate shall be the greater of the following:

1. The per diem rate as determined in section (11); or
2. The prospective rate in effect for services rendered on January 1, 1994.

(B) A facility with a valid Medicaid participation agreement in effect on December 31, 1994, which has a cost report with a rate setting period ending in calendar year 1993 shall have their prospective rate for services after December 31, 1994, based on the 1993 rate setting cost report. For services before January 1, 1995, a prospective rate shall be determined on the basis of the allowable cost per patient day as determined by the Division from the desk audited and/or field audited facility fiscal year cost report under plans applicable on July 1, 1990. For services on or after January 1, 1995, a prospective rate will be the greater of the following:

1. The per diem rate as calculated in accordance with section (11), except the 1993 desk audited and/or field audited cost report will be used. The HCFA Market Basket Index for 1993, 1994 and nine months of 1995 of 10.6% will be replaced with the 1994 and 1995 HCFA Market Basket Index of 3.4% and 3.3% respectively for a total of 6.7%; or
2. The prospective rate in effect for services rendered on January 1, 1994.

(C) A facility with a valid Medicaid participation agreement in effect on December 31, 1994, which has a cost report with a rate setting period ending in calendar year 1994 shall have their prospective rate for services after December 31, 1994, based on the 1994 rate setting cost report. For services before January 1, 1995, a prospective rate shall be determined on the basis of the allowable cost per patient day as determined by the Division from the desk audited and/or field audited facility fiscal year cost report under plans applicable on July 1, 1990. For services on or after January 1, 1995, a prospective rate will be the greater of the following:

1. The per diem rate as calculated in accordance with section (11), except the 1994 desk audited and/or field audited cost report will be used. The HCFA Market Basket Index for 1993, 1994 and nine months of 1995 of 10.6% will be replaced with the 1995 HCFA Market Basket Index of 3.3% ; or
2. The prospective rate in effect for services rendered on January 1, 1994.

(D) A facility with a valid Medicaid participation agreement in effect on December 31, 1994, which has a cost report with a rate setting period ending after December 31, 1994, but before December 1, 1995, shall have their prospective rate for services after December 31, 1994, based on the rate setting cost report ending after December 31, 1994, but before December 1, 1995. For services before January 1, 1995, a prospective rate shall be determined on the basis of the allowable cost per patient day as determined by the Division from the desk audited and/or field audited facility fiscal year cost report under plans applicable on July 1, 1990. For services on or after January 1, 1995, a prospective rate will be the greater of the following:

1. The per diem rate as calculated in accordance with section (11), except the fiscal year ending after December 31, 1994, but prior to December 1, 1995, desk audited and/or field audited cost report will be used. The HCFA Market Basket Index for 1993, 1994 and nine months of 1995 will not be applied; or
2. The prospective rate in effect for services rendered on December 31, 1994.

(E) A facility with a valid Medicaid participation agreement in effect on December 31, 1994, which has a cost report with a rate setting period ending after November 30, 1995, shall have their prospective rate based on a rate setting cost report ending after November 30, 1995. A prospective rate will be effective for services on or after the first day of the rate setting period as determined in section (11), except the desk audited and/or field audited cost report ending after November 30, 1995, will be used. The 1993, 1994 and nine months of 1995 HCFA Market Basket Index will not be applied.

(F) A facility entering the Medicaid Program after December 31, 1994, shall receive an Interim rate as defined in subsection (4)(EE) to be effective on the Initial date of Medicaid certification. A prospective rate shall be determined in accordance with section (11) from the desk audited and/or field audited facility fiscal year cost report which covers the second full twelve (12) month fiscal year following the facility's initial date of Medicaid certification. The HCFA Market Basket Index for 1993, 1994 and nine months of 1995 will not be applied. This prospective rate shall be retroactively effective and shall replace the Interim rate for services beginning on the first day of the facility's second full twelve (12) month fiscal year.